

Message Text

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PAGE 01 NEW DE 07048 291345Z

53

ACTION NEA-16

INFO OCT-01 EA-11 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00

CIEP-02 COME-00 DODE-00 EB-11 FEA-02 FPC-01 H-03

INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01

SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00 NSCE-00 PA-04

PRS-01 USIA-15 DRC-01 /176 W
----- 071668

R 290800Z MAY 74

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 1714

AMEMBASSY ISLAMABAD

INFO AMEMBASSY COLOMBO

AMEMBASSY DACCA

AMEMBASSY KATHMANDU

AMEMBASSY RANGOON

AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

LIMITED OFFICIAL USE NEW DELHI 7048

STAFF ALSO FOR T/IEP

E.O. 11652: N/A

TAGS: ENRG, IN, PK

SUBJECT: ENERGY: SECOND OFFSHORE OIL CONTRACT SIGNED;
ENCROACHMENT INTO PAKISTAN POSSIBLE

REF: A. NEW DELHI 6395; B. NEW DELHI A-392, NOVEMBER
3,1973

SUMMARY: THE GOI SIGNED ITS SECOND OFFSHORE OIL EXPLORATION
CONTRACT WITH A FOREIGN GROUP OF COMPANIES MAY 24 (THE FIRST,
WITH THE NATOMAS GROUP OF COMPANIES, BECAME REALITY MAY 14 -
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PAGE 02 NEW DE 07048 291345Z

REF A). OUR CALCULATIONS SUGGEST THAT A PORTION OF THE NEW

CONTRACT AREA MAY EXTEND INTO PAKISTAN TERRITORIAL WATERS. WE HAVE ASKED THE GOI FOR THE PRECISE LATTITUDE-LONGITUDE COORDINATES USED TO DESCRIBE THE NEW CONTRACT (AS A CHECK AGAINST EARLIER GOI DATA PROVIDED TO THIS EMBASSY), AND WILL REPORT FINDINGS TO ALL INTERESTED POSTS ASAP. END SUMMARY.

1. READING & BATES OIL AND GAS COMPANY, WITH MID-AMERICAN PETROLEUM CO., INC. (MAPCO) AND TERRA RESOURCES, INC. (ALL TULSA, OKLAHOMA, FIRMS), REACHED AN AGREEMENT WITH THE GOI MAY 24 FOR AN OFFSHORE OIL EXPLORATION CONTRACT IN THE VICINITY OF THE GULF OF KUTCH (AREA I - REF. B) IN THE ARABIAN SEA. READING & BATES NOW HOLDS A DIAMOND-SHAPED AREA OF ABOUT 28,000 SQUARE KILOMETERS (10,811 SQUARE MILES) BORDERED ON THE NORTHEAST BY A PORTION OF THE WESTERN COAST-LINE OF THE STATE OF GUJARAT, ON THE SOUTHWEST BY THE SLOPE OF INDIA'S CONTINENTAL SHELF (BEYOND THE 100 FATHAM LINE), ON THE SOUTHEAST BY AREA II REF. B), AND ON THE NORTHWEST BY THE GOI'S INTERPRETATION OF THE INTERNATIONAL BOUNDARY BETWEEN INDIA AND PAKISTAN. REPORTEDLY, READING & BATES BLANS TO BEGIN OFFSHORE PRELIMINARY AND DETAILED SEISMIC SURVEYS AFTER THE 1974 MONSOON SEASON, ABOUT SEPTEMBER 1974.

2. THE READING & BATES/GOI AREA I AGREEMENT IS ESSENTIALLY SIMILAR TO THE NATOMAS/GOI BAY OF BENGAL CONTRACT SIGNED MAY 14 (REF. A). IT FOLLOWS THE "INDONESIAN-TYPE", PRODUCTION-SHARING APPROACH WHICH REQUIRES THAT THE CONTRACTOR STAND ALL EXPENSES FOR EXPLORATION AND DEVELOPMENT WITHIN ITS ASSINED CONTRACT AREA. IF OIL IS DISCOVERED IN PRODUCEABLE QUANTITIES, THE CONTRACTOR IS GUARANTEED A PAYBACK OVER A FOUR-YEAR PERIOD, OR ON THE BASIS OF 40 PERCENT OF PRODUCTION, WHICHEVER INVOLVES THE SHORTEST PERIOD OF TIME ("COST OIL"). THE REMAINING 60 PERCENT (OR OTHER) WILL BE SHARED AS PROFIT (" PROFIT OIL") BY THE CONTRACTOR AND THE GOI AT 35 AND 65 PERCENT RESPECTIVELY. FOLLOWING PAYBACK OF THE COST OIL PORTION OF THE OVERALL AGREEMENT (WITHIN WHICH THERE ARE COST OIL AND PROFIT OIL SEGMENTS), THE CONTRACTOR'S SHARE WILL DROP TO ABOUT 25 PERCENT OF TATAL PRODUCTION, BUT COMPUTED TO PERMIT THE CONTRACTOR A PROFIT RETURN (EQUAL TO INITIAL COST) OVER A TOTAL CONTRACT PERIOD LIMITED OFFICIAL USE

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PAGE 03 NEW DE 07048 291345Z

OF 27 YEARS.

3. THE CONTRACTOR WILL SELL TO THE GOI ALL COST OIL AND 83-85 PERCENT OF ALL PROFIT OIL AT WORLD MARKET PRICES OF COMPARABLE QUALITY PERSIAN GULF CRUDE DISCOUNTED AND DELIVERED C.I. F. BOMBAY. ABOUT 15-17 PERCENT OF THE CONTRACTOR'S SHARE OF PROFIT OIL WILL BE SOLD TO THE GOI AT A CONCESSIONARY RATE OF ONE-FIFTH OF THE MARKET PRICE.

ALL PAYMENTS BY THE GOI WILL BE MADE IN FOREIGN EXCHANGE BACKED BY BANK GUARANTEE; PROFIT OIL WILL BE TAX-FREE IN INDIA; IMPORTED EQUIPMENT REQUIRED FOR EXPLORATION AND DEVELOPMENT WILL BE DUTY-FREE (CUSTOMS WAREHOUSE-BONDED); IMPORTED EQUIPMENT REQUIRED FOR OIL PRODUCTION AND ALL OTHER FIXED AND MOVEABLE ASSETS REQUIRED PERMANENTLY WILL BE DUTIABLE AND ENTERED AS GOI-OWNED PROPERTY; AND THE CONTRACTOR WILL GUARANTEE TO TRAIN INDIAN TECHNICAINS, MAKE MAXIMUM USE OF INDIA-MADE GOODS AND SERVICES, AND PAY APPROPRIATELY AGREED-UPON SIGNATURE AND PRODUCTION BONUSES (AMOUNTS NOT DISCLOSED).

4. DATA CURRENTLY AVAILABLE TO THIS EMBASSY SUGGEST THAT AREA I (DESCRIBED ABOVE) MAY ENCROACH UPON THE TERRITORIAL WATERS OF PAKISTAN. WHILE THIS IS BASICALLY AN INDO/PAK MATTER, AN AMERICAN FIRM WILL BE NONETHELESS OPERATING IN THE REGION. IN THE AMERICAN COMPANY'S INTEREST ONLY, WE THEREFORE ASKED THE GOI'S PETROLEUM MINISTRY FOR THE PRECISE GEOGRAPHIC DESCRIPTION USED IN ITS CONTRACT WITH READING & BATES. WE HAVE NOT SUGGESTED THAT A POSSIBLE INTERNATIONAL BOUNDARY ISSUE MAY EXIST, NOR DO WE PLAN TO. INDEED, THE INTERNATIONAL BOUNDARY (MEDIAN LINE) HAS NOT BEEN SURVEYED, AND MAY NOT HAVE BEEN QUESTIONED RECENTLY IN BILATERAL DISCUSSIONS BETWEEN INDIA AND PAKISTAN. WE DO HOPE TO CAUTION READING & BATES, HOWEVER, IF IN OUR VIEW A BOUNDARY QUESTION APPEARS TO EXIST AND IF IT APPEARS THAT THEIR FIELD OPERATIONS MAY TAKE THEM INTO A POTENTIALLY SENSITIVE AREA.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TERRITORIAL WATERS, DATA, OFFSHORE OIL FIELDS, CONTRACTS
Control Number: n/a
Copy: SINGLE
Draft Date: 29 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974NEWDE07048
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740134-1067
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740511/aaaaajak.tel
Line Count: 144
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: A. NEW DELHI 6395; B. NEW DELHI A-39, 2, NOVEMBER
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 10 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 JUL 2002 by elyme>; APPROVED <26 MAR 2003 by GolinoFR>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ENERGY: SECOND OFFSHORE OIL CONTRACT SIGNED; ENCROACHMENT INTO PAKISTAN POSSIBLE
TAGS: ENRG, IN, PK, READING & BATES
To: STATE ISLAMABAD
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005